

September 19, 2012 Board of Directors Sewerage and Water Board of New Orleans New Orleans, Louisiana

Dear Directors:

### Subject: Responses to Mayor Landrieu's Questions on Water and Sewer Rates

In his letter to the Board of Directors dated July 16, 2012, Mayor Landrieu raised these questions:

- 1. Analyze options for reducing the proposed rate increase. For, example, can it be spread out at a lower rate over a longer period of time so that it is more affordable for our citizens? Are there options for a reduced increase by funding fewer services?
- 2. Identify the reforms and customer service improvements that would accompany new revenue from rate payers.
- 3. Quantify the number of jobs that can be created through the capital improvement plan and in-house training program that would be paid for with the proposed rate increases.
- 4. Identify the consequences and the action plan if the proposed rate increase does not become a reality. What is the operations plan? What projects would not happen? How would basic water, sewer, and drainage service be impacted?

A copy of Mayor Landrieu's letter is included in Attachment A.

In addition, Mayor Landrieu raised additional questions during his remarks at the Board meeting on July 18, 2012:

- 5. Are alternative financing techniques through private equity and public private partnerships feasible?
- 6. What are the plans by the Board of Directors and management to demonstrate accountability for improvement?
- 7. How will concerns by stakeholders about governance be addressed?

Mayor Landrieu requested that responses to these questions be prepared within 60 days. This memorandum contains staff recommendations for responding to each of these questions on water and sewer rates. It is important to note that these questions and responses are unrelated to recommendations for funding the drainage system.



The decision to defer needed expenditures in the past has resulted in the need for more expensive rates now and in the future. Simply put, the full cost of service for water, sewer, and drainage has not been paid by customers over the past thirty years and because of this, significant costs have been pushed to future generations. The current level of needed expenditures supported by existing rates is not sustainable and at this time, the levels of risks associated with the water and sewer system are unacceptable. In order to mitigate future risks to the entire system, a rate increase is necessary.

Management recognizes the validity of consideration to spread proposed rates over a longer period of time and supports these efforts. At the request of Mayor Landrieu, serving in his capacity as the President of the Sewerage and Water Board of New Orleans, Management can report the following findings:

#### REDUCED RATE INCREASE RECOMMENDED

To reduce the impact of the five-year program of annual increases on rate payers, Management recommends 10% annual rate increases effective each December 1 for 2012 through 2020 to meet the objectives of the long-range financial plan for the water and sewer systems.

Rate payers achieve significant savings with an eight-year, 10% annual rate increase for water and sewer when compared to the previously proposed five-year, 12% increase for water and 13% increase for sewer rate plan. An average monthly residential combined bill will see an \$8.56 monthly savings by 2016 under the 10% annual rate.

In addition to spreading the rates increases over time, we also intend to reduce the impact of rate increases to low income elderly and handicapped customers through a Service Assurance Program that includes these actions:

- Provide additional funding for bill payment assistance through the Water Help program;
- Expand Water Help program to provide assistance with plumbing repairs;
- Pursue legislative change to allow adjustments for water lost through customer leaks;
- Evaluate waiver of service charges for qualifying low-income customers; and
- Evaluate reduction in late payment fee.

#### **CUSTOMER SERVICE IMPROVEMENTS**

A 10% rate increase for water and sewer service supports tangible benefits to customers including:

- Electronic Meters;
- Additional Customer Service Center;
- Online Account Management for Customers;
- Work Order Tracking; and
- Improved Efficiency and Reliability.



#### **JOB CREATION**

A 10% rate increase will provide for a ten year, \$3.3 billion Capital Improvement Program composed of over 600 projects that can support 26,959 construction job years according to Infinity Engineering Consultants and Dr. Salim Kublawi. A job year is one year's worth of work by a full-time equivalent.

In addition, Management estimates that 74 permanent jobs would be created in 2013 at Sewerage and Water Board for operating and maintaining the water and sewer systems from funds provided by the proposed rate increase. This would increase to a total of 186 jobs by 2020.

#### **OPERATIONAL REFORMS**

Management is committed to a comprehensive program of accountability to demonstrate improved performance by working towards the following:

- Improve operations through performance measures, improved framework, and follow-up reviews to reduce future rate increases;
- Demonstrate that improvements to water and sewer system are occurring equitably in all areas of the community;
- Reduction in free water provided to municipal accounts;
- Improve coordination between Sewerage and Water Board and Department of Public Works;
- Enhance long range planning by developing a Facilities Plan for 2015-2035; and
- Develop new sources of funding other than water and sewer rate increases.

#### IMPROVED GOVERNANCE AND ACCOUNTABILITY

The Executive Committee of the Board of Directors has met with outside stakeholder groups regarding their recommendations for changes to the governance structure of the Sewerage & Water Board. A Benchmarking Utility Governance Structures analysis has been performed that describes the structures used by comparably sized utilities. Management is prepared to assist and support changes in the governance system.

Following are the recommended responses. The responses in *bold italics* are intended to serve as summary statements supported by more detailed information.

Marcia A. St. Martin Executive Director



1.A Analyze options for reducing the proposed rate increase. For, example, can it be spread out at a lower rate over a longer period of time so that it is more affordable for our citizens?

Yes, the proposed rate increases can be spread out over a longer period of time. If the community prefers to reduce the impact of the five-year program of annual increases, management recommends that the objectives of the long-range financial plan can be achieved through an eight-year program:

	Preliminary	Final	Recommended	
	Rate Study	Rate Study	Alternative	
	September 2011	April 2012	September 2012	
	15%	12%	10%	
Water	effective July 1	effective July 1	effective December 1	
	2012-2016	2012-2016	2012-2020	
	14%	13%	10%	
Sewer	effective July 1	effective July 1	effective December 1	
	2012-2016	2012-2016	2012-2020	

The preliminary version of the <u>Financial Plan and Rate Study 2011-2020</u> was released on September 26, 2011 and the final version was released on April 30, 2012. The financial plan and rate study covered a ten-year planning period. For both of those versions, the 2012 rate increase was assumed to go into effect on July 1, and the rate increases in four subsequent years were also assumed to occur on July 1. No increases were proposed for the first year while stakeholder meetings with community leaders were held. Rate increases for 2017 through 2020 were identified but not recommended at that time.

Because the recommended implementation date of July 1, 2012 had passed, the consultant created an initial baseline scenario where the rate increases remained the same as in the April 2012 report, but the increases were assumed to go into effect on December 1. The consultant also shifted to a slightly more conservative assumption of a month lag in the impact of the rate increases because bills are pro-rated in the month that the rates change.

The shift in timing for the rate increases from July 1 to December 1 had a significant financial impact through 2020, with revenues reduced by \$32.8 million. Due to the lower revenues in the early years, the CIP had to be spread out differently. The biggest change was to shift all the projects for which the Board is responsible out of 2012 and into subsequent years. With the revised CIP, debt issuances would also be different. Since the Board-funded 2012 projects are pushed back, the first debt issuance is assumed to occur in 2013. The additional O&M expenses were also shifted back a year to begin in 2013 and increase over a five-year period through 2017.



Raftelis Financial Consultants created six alternative rate scenarios to reflect increases over eight years rather than five years. The alternative rate scenarios show the amount of additional revenue created, the amount of the capital improvement program that can be constructed, the amount of debt to be issued, and the amount of additional operations and maintenance that can be funded. The first alternative to the initial baseline creates the same amount of additional revenue as recommended in the April 2012 final Rate Study Report. The second through sixth alternatives show the results of lower rate increases in one percent increments. *The details for these scenarios are shown in Attachment B.* 

Management recommends that the objectives of the long-range financial plan for the water system can be achieved through Scenario 4 with 10% annual rate increases and for the sewer system through Scenario 3 likewise with 10% annual rate increases.

The results of lower rate increases for 2012-2016 are shown below:

Average Monthly Residential Water Bill						
	Current	2012	2013	2014	2015	2016
Proposed 12% rate	\$ 22.70	\$ 25.42	\$ 28.46	\$ 31.86	\$ 35.68	\$ 39.97
Revised 10% rate	\$ 22.70	\$ 24.98	\$ 27.50	\$ 30.27	\$ 33.29	\$ 36.62
Effect	\$ 0.00	\$ -0.44	\$ -0.96	\$ -1.59	\$ -2.39	\$ -3.35

Average Monthly Residential Sewer Bill						
Current 2012 2013 2014 2015 2016						
Proposed 13% rate	\$ 29.80	\$ 33.70	\$ 38.06	\$ 43.00	\$ 48.61	\$ 54.94
Revised 10% rate	\$ 29.80	\$ 32.99	\$ 36.53	\$ 40.49	\$ 44.88	\$ 49.73
Effect	\$ 0.00	\$ -0.71	\$ -1.52	\$ -2.51	\$ -3.72	\$ -5.21

Average Monthly Residential Combined Bill						
Current 2012 2013 2014 2015 2016						
<b>Proposed Combined Bill</b>	\$ 52.50	\$ 59.11	\$ 66.52	\$ 74.86	\$ 84.29	\$ 94.92
Revised Combined Bill	\$ 52.50	\$ 57.97	\$ 64.04	\$ 70.76	\$ 78.18	\$ 86.36
Effect	\$ 0.00	\$ -1.14	\$ -2.48	\$ -4.10	\$ -6.11	\$ -8.56



### 1.B Are there options for a reduced increase by funding fewer services?

The provision of drinking water and sanitary sewer service is subject to significant state and federal regulations and cannot be reduced as a cost-cutting measure. For example, it is not permissible to provide service only on a limited days-of-the-week or hours-of-the-day basis. However, the provision of other customer-related services, such as meter reading, billing, and collection, are not regulated and could be reduced. Most of these expense reductions are relatively inconsequential but would result in increased inconvenience to customers. Staff believes that significant cost reductions are best achieved through process analysis and redesign, combined with appropriate investment in new technology, rather than through reduction in services.

• Move from monthly meter reading and billing to a less frequent cycle, such as every two or three months.

Sewerage and Water Board has successfully improved our meter reading capabilities so that more than 99% of accounts are read each month, resulting in a significant reduction in occasions to use estimated readings. Monthly meter readings provide frequent feedback to customers about the possibility of underground leaks or plumbing fixture leaks. By lengthening the time between meter readings, the amount for water charged to customers for leaks could increase by three-fold.

■ Reduce customer service hours and lengthen response times for telephone and walkin service.

Telephone Customer Service hours for billing issues are Monday through Friday from 7:00 AM until 7:00 PM. Walk-In Customer Service hours are Monday through Friday from 8:00 AM until 5:00 PM. These hours of service could be reduced, but would result in longer response times. Emergency Customer Service hours are continuous, including nights, weekends, and holidays.

• Extend response times to customer complaints for water leaks and paving failures.

Target times are established for responding to each of the various types of customer complaints. Response times for sewer system issues are prescribed within the Consent Decree. Response times could be further extended beyond existing levels.

• Limit resources assigned for coordination and planning efforts.

Sewerage and Water Board staff have extensive responsibilities for coordination and planning with the City of New Orleans, the Regional Transit Authority, Entergy and other local government agencies and utilities. These responsibilities could be reduced, but may result in significant inefficiencies on capital investments.



### • Reduced ability to facilitate repairs of major equipment.

Because of the extensive size of the service area, Sewerage and Water Board maintains a significant fleet of trucks and equipment to support maintenance of the systems. The response times for fleet repairs could be extended, but would result in decreased productivity for work crews assigned the use of that equipment.

### • Close the Customer Service Center in Algiers.

Sewerage and Water Board is developing plans to open an additional Customer Service Center for customers who prefer a location more convenient to their home or business. However, we could shutter the Customer Service Center in Algiers.

### ■ Eliminate Sewerage and Water Board website.

Sewerage and Water Board currently provides a website for customers and stakeholders to obtain information and conduct certain transactions immediately without calling or travelling to the Board. We plan to significantly expand the capabilities of this website as we upgrade our customer account management system and our work management system. However, we could cease those plans and shutter the website, as well.



2. Identify the reforms and customer service improvements that would accompany new revenue from rate payers.

The program of rate increases for water and sewer service recommended in the Financial Plan and Rate Study 2011-2020 provide for specific tangible benefits to customers. Following is a brief summary of those benefits:

#### ■ Electronic Meters

Sewerage and Water Board intends to replace existing mechanical meters with new electronic meters and an automated meter reading system that will provide more accurate readings, enhanced leak detection on customer lines, and improved account monitoring.

#### ■ Additional Customer Service Center

A new Customer Service Center will be opened to provide convenient access to full service capabilities for customers without travelling to our downtown location.

### Online Account Management for Customers

Sewerage and Water Board intends to replace the Customer Account Management System with new software that will include online account management for customers.

### ■ Work Order Tracking

The existing Work Order System will be upgraded to provide for online work order tracking and scheduling.

### ■ Improved Coordination with the Department of Public Works

A joint team of Sewerage and Water Board engineers and Department of Public Works engineers will be working in coordination of planning and construction for the FEMA Recovery Roads program.

### • Reduction in Free Water provided to Municipal Accounts

With recently added staff resources, work is proceeding to reduce the amount of free water provided to municipal accounts by fifty percent over the next five years.

#### ■ *Improved Efficiency and Reliability*

New initiatives in process documentation, analysis and improvement are planned to reduce operating and maintenance expenses from existing operations by ten percent over the next five years.

The largest portion of additional resources provided by recommended increases in water and rates will be directed towards repayment of newly issued bonds for plant equipment and pipeline infrastructure. By 2020, the additional annual debt service will be more than \$19,000,000 for the water system and \$22,000,000 for the sewer system. The items listed above are intended to demonstrate those initiatives which will be more readily apparent to ratepayers.



3.A Quantify the number of jobs that can be created through the capital improvement plan that would be paid for with the proposed rate increases.

The estimated number of jobs that can be created through the capital improvement program was developed by Infinity Engineering Consultants and Dr. Salim Kublawi as shown in Attachment C.

To assist in calculating the total number of jobs that will be created Infinity solicited Dr. Salim Kublawi. Dr. Kublawi is a professional economic analyst with wide experience in economic studies, particularly techniques and methodologies for constructing statistical measures and indicators for measuring the levels of economic development and economic growth in developing countries. Dr. Kublawi is a specialist in analyzing the economic impacts of projects and programs as well as conducting feasibility studies of projects, with a M.A. Statistics from Georgetown University, Washington D.C. and a M.A. Economics from Vanderbilt University, Nashville, Tennessee.

The Capital Improvement Program proposed by the Sewerage and Water Board is composed of over 600 projects with an estimate value of \$3.3 billion over the next ten years. Included in the \$3.3 billion figure is \$2.0 billion in projects funded by other sources such as FEMA and the US Corps of Engineers and not though service rates.

Infinity Engineers and Dr. Kublawi estimate that the Capital Improvement Program can support 26,959 job years during the ten year period. A job year is one year's worth of work by a full-time equivalent.



3.B Quantify the number of jobs that can be created through the in-house training program that would be paid for with the proposed rate increases.

Management estimates that 74 jobs would be created in 2013 at Sewerage and Water Board for operating and maintaining the water and sewer systems from funds provided by the proposed rate increases. This would increase to a total of 186 jobs by 2020. Note that this is in addition to positions that will be replaced through attrition. There are 162 positions filled by employees who are currently retirement-eligible as well as 143 positions filled by employees on DROP who will be leaving within the next five years, representing more than 30% of the workforce which may retire in the very near term.

Following is a summary of the calculation. The average annual compensation at Sewerage and Water Board during 2010-2011 was approximately \$30,175 per employee. The average amount of pension, medical insurance and other labor related overhead was \$19,600 per employee. The value of the total compensation was \$49,775 per employee. If new employees were assumed to be added at a cost of eighty percent of existing employees (to exclude effect of promotions and longevity increases), the estimated annual cost per new employee would be \$39,820.

The additional jobs that would be created from operations and maintenance expenses to be added for the water and sewer system, based upon the final <u>Financial Plan and Rate Study 2011-2020</u> released in April 2012 and the alternative scenarios, is shown as follows:

	Additional Funds in 2013	Jobs Created in 2013	Additional Funds in 2020	Jobs Created in 2020
April 2012 Report	\$8,956,000	74	\$22,390,000	186
Initial Baseline	\$4,561,200	38	\$22,806,000	189
Scenario 1	\$4,561,200	38	\$22,806,000	189
Scenario 2	\$4,561,200	38	\$22,806,000	189
Scenario 3	\$4,309,275	36	\$22,806,000	189
Scenario 4	\$2,640,813	22	\$21,126,500	175
Scenario 5	\$2,535,844	21	\$20,286,750	168
Scenario 6	\$1,823,156	15	\$14,585,250	121

This assumes that one-third of additional funds would be used to create new positions and that each new position would cost \$39,820.



4.A Identify the consequences and the action plan if the proposed rate increase does not become a reality.

Following are the <u>financial consequences</u> if the proposed rate increase does not become a reality. The <u>operations consequences</u> and customer impact are described in the response to Question 4.D below.

The Board of Liquidation could compel the Sewerage and Water Board to raise water or sewer rates.

Sewerage and Water Board failed to meet debt service coverage requirements for the water system revenue bonds in 2008 and for the sewer system revenue bonds in 2009. The Board of Directors initiated a long-range financial plan and rate study in 2010 as part of its efforts to diligently proceed with compliance of these requirements. The bond covenants also contain requirements that, "the Board shall operate... the System properly and in a sound, efficient and economical manner and shall maintain... in good repair, working order and condition, and shall from time to time make... all necessary and proper repairs, replacements and renewals so that the operation of the System may be properly and advantageously conducted...".

According to Louisiana Revised Statute 33:4096(E), "the Board of Liquidation, City Debt, is empowered by appropriate judicial proceedings, to compel the Sewerage and Water Board of New Orleans to fix water rates which will produce such net revenues as required in the resolution adopted by the Sewerage and Water Board authorizing the issuance of any water revenue bonds and to perform and do such other acts as the Sewerage and Water Board is required to do as provided herein." The Board of Liquidation could compel the Sewerage and Water Board to raise water or sewer rates to meet these requirements.

The United States Department of Justice and the Environmental Protection Agency may appoint an overseer or special master at Board expense to ensure compliance with the Federal Consent Decree and initiate proceedings to compel the Sewerage and Water Board to raise sewer rates.

Sewerage and Water Board has met all of the requirements of the sewer system Federal Consent Decree to date. However, there are not adequate funds available to construct certain projects required by upcoming deadlines. Staff has initiated negotiations to extend those deadlines in order to better coordinate the construction with other water and street projects and to allow for planned increases in sewer rates and long-term capital financing. If the Sewerage and Water Board cannot demonstrate that it is diligently proceeding with implementation of the new sewer rates and financing, then an extension of the Consent Decree may not be granted and the Department of Justice and USEPA may initiate proceedings to compel the Sewerage and Water Board to raise sewer rates and charges with stipulated penalties of up to \$10,000 per day for failure to meet the



Consent Decree milestones.

### Cash liquidity would be inadequate for timely responses to emergencies.

Emergencies cause two types of strains on cash flow: disruption of cash receipts from customers and increased cash disbursements for repairs. A sharp decrease in cash receipts occurs when customers are evacuated from their homes and when mail delivery and banking services are disrupted. Likewise, cash disbursements for repairs immediately following an emergency are further complicated by the FEMA response time for reimbursements. Contractor prices for performing repairs would increase to offset lengthy delays in receiving payment.

Credit rating agencies would downgrade bond ratings; and, new bonds to finance the capital improvement program would have interest rates that would not be affordable.

Sewerage and Water Board has communicated regularly with the three largest credit rating agencies regarding the status of the long-range financial plan and rate study. These rating agencies are significantly concerned about our ability to meet debt service coverage without non-recurring FEMA funding. If the Sewerage and Water Board cannot demonstrate that it is diligently proceeding with the recommendations of the *Financial Plan and Rate Study 2011-2020* to the satisfaction of the credit rating agencies, then the bond ratings are subject to downgrade below investment grade.

The water system bonds are currently rated as Ba2/BB+/BBB- (the highest rating within non-investment grade or "junk" bonds) while the sewer system bonds are currently rated as Baa1/BBB/BBB- (the lowest rating within investment grade but just above "junk" bonds). Without the necessary revenues from the proposed rates, these bonds would be downgraded to "junk" status and there would be no revenues available to issue additional debt. The risk associated with the lower credit rating of "junk" status would profoundly limit the number of investors who would be willing to purchase any new bonds. And new bonds, *even if they could be issued*, would carry a risk premium of 300 basis points or more added to the interest rates that would make financing the capital improvement program unaffordable.

For example, bonds that could have been issued with a 6% interest rate would instead carry a 9% interest rate. The *Financial Plan and Rate Study 2011-2020* contemplates issuance of bonds in the approximate amount of \$326,780,000 for the water system and \$368,420,000 for the sewer system between 2012 and 2020, for a total of \$695,200,000. The increase of interest rates from 6% to 9% for \$695,200,000 in bonds issued for twenty years would result in \$15,546,000 in additional annual interest expense. Over twenty years, the total additional interest expense would be \$310,920,000.

The ability to retain existing employees and attract qualified new employees would be severely tested.



The single largest risk currently facing Sewerage and Water Board is the potential loss of knowledge and experience of skilled workers needed to operate and maintain the water, sewer, and power systems during and following extreme storm events. Significant portions of these skilled workers are eligible for retirement. They have continued working at below-market wages due to commitment to their jobs as well as their appreciation of pension and medical benefits. In the absence of new funding to resolve long-standing system problems and with the prospect of reduced pension and medical benefits, a sudden increase in retirements would be imminent. Below-market wages combined with reduced benefits could not reasonably attract qualified new employees with sufficient skills to operate and maintain the systems.

Maintenance expenses would increase and suppliers would raise prices to recover the cost of slower payments.

The cost of maintaining aging infrastructure will continue to rise until the system components are replaced or rehabilitated. As maintenance expenses continue to rise, the ability to pay contractors and vendors on a timely basis would be impaired, especially following expensive unscheduled maintenance expenses. Contractors and vendors would raise prices by ten percent or more to recover the cost of slower payments.



### 4.B What is the operations plan?

The operations plan for continuing service in the absence of necessary water and sewer revenues would require an increasingly ad hoc, reactive response to emergencies.

We have already reached this point. Because emergencies are virtually inevitable but could not be specifically anticipated, any operations plan would be subject to a broad range of changes to respond to circumstances as they arose. Resources which might be used for business continuity planning are unfortunately already committed to keeping the current system operational.

### 4.C What projects would not happen?

In the absence of necessary water and sewer revenues, <u>no projects would be constructed</u>, including those funded by external entities such as FEMA.

Projects funded primarily by external entities such as FEMA frequently include portions that are not eligible for reimbursement. For example, if in the course of replacing bearings on a pump that have been damaged but find critical mechanical and electrical parts require replace due to age or corrosion damage not recognized by FEMA, then we may not be able to afford the parts to put the pump back together or the repair may not be sustainable. The critical projects that would not be constructed include:

### Water System \$277,000,000

- Replacement and rehabilitation of water purification plant facilities
- Replacement and rehabilitation of water pumping facilities
- Replacement of water system transmission and distribution mains

#### Sewer System \$314,000,000

 Replacement and rehabilitation of sewer system collection pipes required by Federal Consent Decree



### 4.D How would basic water, sewer, and drainage service be impacted?

The frequency of water system failures resulting in interruption of service to large portions of the service area would increase. Because of the amount of deferred investment during the past thirty years, there is a significant likelihood of a major system failure in the next five to ten years even if the full amount of rates needed were approved immediately.

In the absence of necessary water and sewer revenues, service would be adversely impacted on an incremental basis, pending a sudden failure of a major portion of the systems which would result in service disruptions of undetermined scope and duration. Drainage service would be adversely impacted through deficiencies in processes that are funded in part by water and sewer revenues, such as the power plant, information systems, fleet maintenance, warehouse, and other administrative services.

There are key facilities at our power plant and water treatment plant and pumping facilities that are not available for service due to insufficient funding for replacement or rehabilitation. These off-line facilities were designed and installed to serve as backup so that other equipment currently in operation may be taken out of service for routine maintenance. Without access to the redundant facilities, the failure of certain portions of the water system would result in the interruption of service to large portions of the service area. A memorable example occurred in November 2010 when a boil water advisory was issued to more than 300,000 people for two days following a short-term power failure at the water treatment plant.

A longer-term problem due to failure of large pumps or pipes could compromise water quality, endanger public health and safety, and impair our ability to provide fire protection to the community. If water quality is compromised, alternative supplies of drinking water must be improvised. This would be particularly disruptive during major tourist events, such as Mardi Gras season or championship games. Likewise, if significant pumping or transmission capacity is compromised, water pressure and flow could be unavailable at fire hydrants and would be insufficient to support the fire suppression systems for the officer towers and hotels in the Central Business District.

And, the worst case scenario is a catastrophic failure of the water system that could result in the need to evacuate the City pending the reconstruction of the failed infrastructure and the lengthy recertification of the drinking water system.



### **5.A** Are alternative financing techniques through private equity feasible?

Leaders within the City Administration and Sewerage and Water Board are already participating in key national conversations on this topic, especially regarding the use of approaches being developed in Chicago. The City of New Orleans is poised to pursue this type of financing through institutions already in place to facilitate private equity financing.

Staff is monitoring the contemplated use of private equity by public water and wastewater utilities around the United States. In New Orleans, the likely best candidate project for alternative financing through private equity may be the Automated Meter Reading project. Staff will further explore this alternative when planning this project and will report back to the Board of Directors on its feasibility.

Alternative financing techniques through private equity are possible but may not feasible for most of our capital projects at this time.

Sewerage and Water Board management has considered alternative financing techniques, including private equity, but believes that these methods are not feasible for most of our capital projects at this time because of the following reasons:

- Tax-exempt revenue bonds remain the lowest cost option for financing capital projects in terms of cost of issuance and annual cost of capital.
- Most projects within the capital improvement program are not the type of projects that lend themselves well to private equity financing; that is, the projects are not stand-alone and distinct, such as construction of a new treatment plant; and, many key large projects contain components that are partially financed with federal funds.
- Expertise would be required to supplement staff on the use of private equity funding.
- The amount of time needed to create the first occurrence of this type of transaction for Sewerage and Water Board would be significantly longer than tax-exempt debt financing.



### 5.B Are alternative financing techniques through public private partnerships?

Sewerage and Water Board currently utilizes a significant public-private partnership in operation and maintenance of two sewage treatment plants and will continue to seek additional new opportunities for partnership.

A public-private partnership involves participation by the private sector, working in conjunction with the public sector, in the delivery of goods and services to the public. The participation by the private sector includes a defined sharing of the investment, risks, and returns of the venture. Sewerage and Water Board has engaged in a public-private partnership through the operation, maintenance, and a limited portion of the construction of two sewage treatment plants by Professional Services Group / USFilter / Veolia Water since 1992. As business processes are redesigned and improved, staff will continue to seek additional new opportunities for partnership.



# 6. What are the plans by the Board of Directors and management to demonstrate accountability for improvement?

Sewerage and Water Board commits to a comprehensive program of accountability to demonstrate improved performance.

To improve efficiency of Sewerage and Water Board operations, we will:

- Establish performance measures and targets as well as reporting methodology.
- Implement a continuous improvement framework based upon a systematic approach to problem-solving.
- Perform follow-up reviews and document results and efficiencies achieved.
- Reduce future rate increases on a dollar-for-dollar basis from new efficiencies.

To demonstrate that improvements to the water and sewer system are occurring equitably in all areas of the community, we will:

- Distribute maps showing maintenance work completed, capital projects completed, and planned capital improvements.
- Provide documentation of FEMA receipts and uses of funds.
- Initiate annual meetings with citizens of each council district to regularly report on organizational performance results.

To improve coordination of efforts between Sewerage and Water Board and the Department of Public Works, we will:

- Accelerate repayment of funds owed to Department of Public Works.
- Determine feasibility of performing street drainage maintenance work on a feefor-service basis.
- Reinforce teaming partnership with DPW in the implementation of the FEMA capital improvements on water, sewer and road restoration by providing adjacent office space to streamline planning and coordination efforts.

### To enhance long range planning, we will:

• Engage consulting engineering firms to develop a Facilities Plan for 2015-2035 to identify the capital investments that will be needed beyond the immediate needs identified in the current capital improvement program.

#### To develop new sources of funding other than water and sewer rate increases, we will:

- Increase participation in economic development activities.
- Pursue opportunities for wholesale water and sewer service to adjacent communities.



• Identify and pursue new sources of non-utility revenues, such as fees for sanitation billing services and laboratory services.

To provide amount of water and sewer service to city agencies that is reasonable and appropriate.

- Work with city agencies to reduce free water and sewer usage by goal of a fifty percent within five years.
- Pursue legislative relief from burdensome requirements for free service to revenue-producing agencies.



### 7. How will concerns by stakeholders about governance be addressed?

The Executive Committee of the Board of Directors has met with representatives from Bureau of Governmental Research; the Business Council of New Orleans & the River Region; and the New Orleans Citizen Sewer, Water & Drainage System Reform Task Force regarding their recommendations for changes to governance. These recommendations are consolidated and cross-referenced in Attachment D. The Executive Committee intends to prepare detailed responses to each of the recommendations for consideration. A Benchmarking Utility Governance Structures describes the structures used by comparably sized utilities in Attachment E.

The Board is responsible to the citizens of New Orleans for ensuring that our mission is achieved. The Board accomplishes this through planning; setting goals and objectives; creating and aligning resources; monitoring; and evaluation of organizational performance. Effective oversight by the Board is important to maintaining public trust.

The governance system of Sewerage and Water Board is composed of three components: <u>structure</u> (how many members, length of terms, mix of elected officials and appointed citizens); <u>people</u> (qualifications, nomination, and selection); and <u>processes</u> (how meeting agendas are created, level of authority delegated to management, how plans are developed and strategy is set, and how performance is monitored). Experience has shown that utilities across the country experience widely varying degrees of success and that the determining difference is attributable to the governance system used.

Management is prepared to assist and support changes in the governance system.